

July 13, 1983

LETTER 865

July 1, DJIA 1225.26; PTI 1685; A-D Ratio -12.97

July 8, DJIA 1207.25; PTI 1661; A-D Ratio -13.47

THE MARKET: Short term: The Primary Trend Index was up a record eleven out of twelve weeks for the period ending July 1. The single week of exception was the week ending May 20—when the PTI was unchanged. Thus, since April 15 the PTI has been telling us that this is a strong market, a market unlikely to correct, a market that technically is holding together.

I must admit I am getting a bit worried about this incredible string of rises in the PTI. But the PTI is an indicator, and it doesn't make much sense for me to try to outguess my own indicator. The PTI's rising string looks endless, it appears "overbought," but I'm not ready to say that this market has to correct. The market (as I've often said) can DO ANYTHING. And since April 15 that's just about what has happened!

How about the downside? What if this market starts to spill over? Note on the chart that the two downside targets for the Dow are the 1204.33 low of late-May and the 1190.02 low of early June. It is possible that the Dow could come down and test or even break those levels.

If, and I say IF that occurs, the big tip-off will be the action of the D-J Transportation Average. I have been saying ever since April that the Transports are "the strength of this market." The Transports have been building a long series of higher bottoms. And on any weakness the Transports have consistently refused to confirm the downside action of the Dow.

The important near-term downside objective for the Industrials is 1190.02. If that low is broken I will be watching the comparable low for Transports, and that is the 538.07 low of May 19. A Dow breaking of 1190.02 confirmed by a Transport penetration of 538.07 would turn the secondary trend of the market down for the first time since late August. But I repeat—it will be very important to see whether the Transports (which have resisted all downside confirmations so far) will break below 538.07 in the face of Dow weakness.

My guess: The following is my guess as to what may lie ahead (short-term). But remember, it is only my guess. I feel that the Transports are strong enough to contain any reaction, but by the same token the Dow has been undeniably weak. Therefore, what we could see here is a trading range affair, with the Dow slipping down towards 1200 or even below, while the Transportation Average holds above the 538 level or (with more certainty) above the important 515.80 level of May 3. I particularly mention the 515.80 level for Transports because it was here that the Transports first refused to confirm downside weakness in the Industrials.

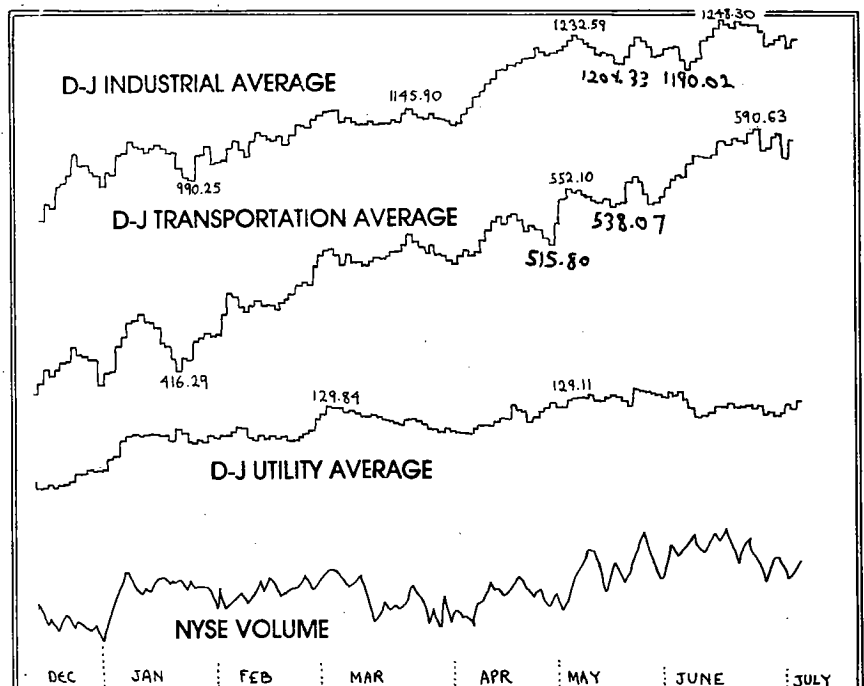
LONGER-TERM: Over the longer term I see this bull market moving much higher. Some of the best research in the country is done by Ned Davis of

Davis, Mendel and Regenstein (PO Box 2089, Venice, FL 33595). In a recent report Davis tabulated 17 previous bull markets, adjusting each one to start at 774.54 (which is where the current bull market began—at the August bottom). Davis found that 12 out of the 17 previous bull markets went higher than the current one. For instance, the 1921-29 bull market (if it had started at 774.54) would have topped out at 4620. The 1933-37 bull market would have topped at 3002. So historically, there is plenty of room left on the upside for today's bull market.

Davis also noted that almost all bull markets ultimately become overvalued, selling at at least 28 times dividends. With the latest 12 month dividends for the Dow at just over \$54, a 28 multiple of dividends would provide a value of over 1500 for the Dow. So from this standpoint too, the market could have much further to go.

What is so difficult to get across to newer subscribers is that the more corrections, the more interruptions, the more fear created within a bull market, the longer and higher that bull market is fated to go. Therefore, readers should not curse the corrections and interruptions, they should welcome them. Without the occasional corrections, we might have a bull market that would roar to completion within a matter of a few months or perhaps within a year. The great bull markets have had many corrections. In fact, I started this service following the drastic bull market correction of 1957—a correction that came prior to one of the most dramatic and forceful primary advances in stock market history.

PRIMARY TREND INDEX: I don't care how good a ship's captain is, without his compass, without his navigational



instruments, he isn't worth much. A ship (with a helpless captain aboard) is in extreme danger.

I feel pretty much the same about the stock market. Over the years, I've used a battery of instruments (i.e., indices and averages). But frankly, it's always bothered me that in this business everyone tends to read the *same* indexes. And unfortunately, on Wall Street what everyone watches and what everyone knows, ceases to be reliable.

I feel that there is one major exception to this "rule." And that is the classic Dow Theory study of the Averages. Why is this? Why should a study of the Averages (and EVERYBODY watches the Averages) be worth anything? The answer is that incredible as it sounds, very few people are expert (or even proficient) at reading and interpreting the market on the basis of the Averages.

I've spent thirty years studying, scrutinizing and pondering the action of the D-J Industrial and Transportation Averages. I'll let you in on a secret—I still have a lot to learn about interpreting the movements of the Dow Jones components. There are dozens of ways of reading and analyzing the Averages, from simply studying the price movements on the basis of confirmations, divergences and non-confirmations, to momentum studies and moving averages and exponential averages and point & figure diagrams.

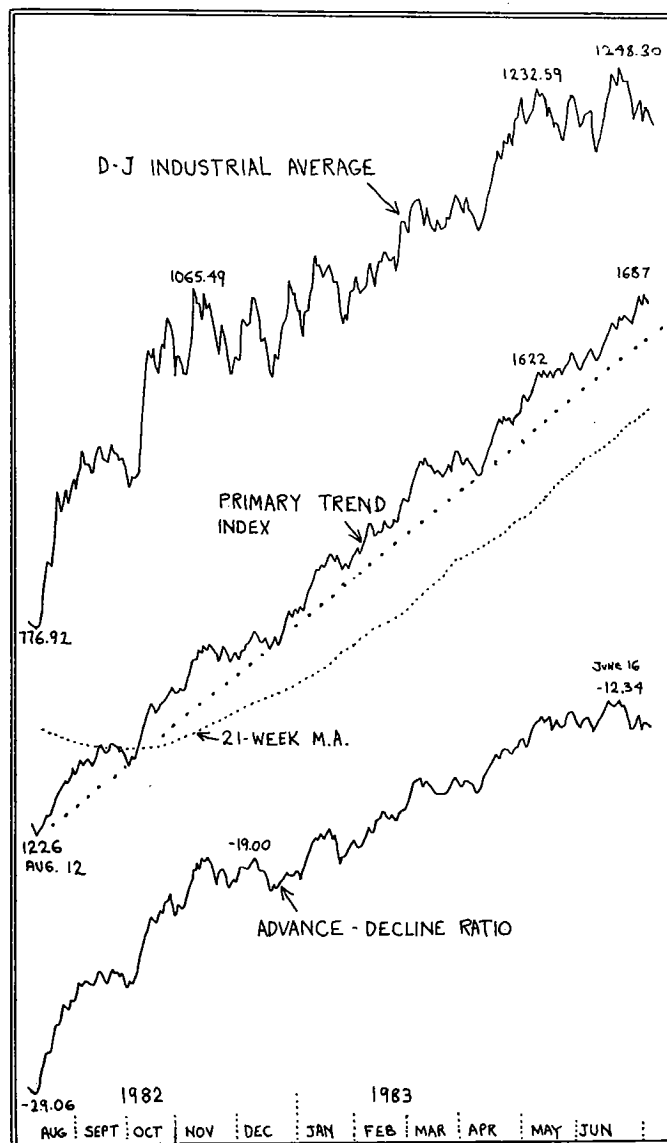
Personally, I put most faith in the classic Dow Theory method of interpreting the price movement. This is the method originated by William Hamilton (Wall Street Journal editor) and later refined by the great Dow Theorist, Robert Rhea. Rhea's method of reading the Averages entails more art than science. For this reason the *Dow Theory has never been reduced to a mechanical or automatic study.*

So the Dow Theory method of reading the Averages is one of my mainstays. My second mainstay is my Primary Trend Index (PTI). This is an instrument that I developed in the late 1960s. It was the result of many months of experimentation and trial-and-error research. In 1971 I finally "perfected" the PTI, and I have used it daily ever since.

What is the PTI? It is an amalgum of eight indicators and indices, all eight reduced to a single figure which I tabulate and chart daily. The PTI tends to cut through the technical fog, and it has a long record of pointing the direction, the true direction, of the trend of the market.

Many readers were amazed during the 1973-74 bear market, when the PTI steadfastly said, "Danger, stay out!" The PTI never wavered during the numerous deceptive and often explosive rallies, and as an analyst and writer I had many occasions during that period to thank my lucky stars that I had the guidance of the PTI.

Newer readers have seen the value of the PTI during the 1982-1983 (to date) bull market. My own biggest problems have arrived when I doubted the message of the PTI or when I argued with its verdict. The PTI turned up last August, and at that time I argued with its "forecast." But when the PTI pushed above its own 21-week moving average, I decided that I had best trust my own "brain-child," and I've been bullish every since. Incredibly, the PTI has held not only above its 21-week moving average but it has held steadfastly above a rising trendline that can be drawn



from the August low. The strength of the PTI since last August, in fact, has been amazing to see.

Current Reading: After hitting a potential "triple top" at 1669, the PTI on June 30 rose to a new record high of 1677. This was quite a feat, considering that historically May and June tend to be "correction months" (and this is particularly true in periods where the market has been strong during the early part of the year).

The market turned ragged during early July, but on July 6 the PTI hit another record high of 1687. So far, the PTI has been strong on rallying days while PTI losses during declining days have been minimal. This is the "why" of the powerful showing in the PTI.

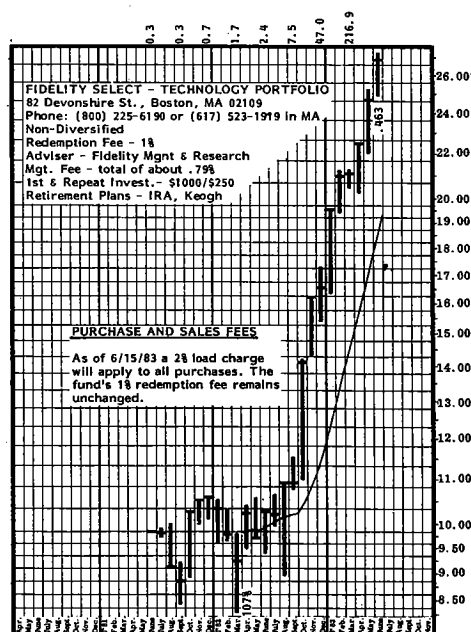
Note that although the advance-decline ratio recorded its 1983 peak on June 16, the PTI is negating that action. A continued rising trend in the PTI will ultimately force the market higher. I can't seem to remember a time when the PTI so dramatically differed with the rest of the market. Therefore, I consider the PTI action **EXTREMELY IMPORTANT** at present.

It is well to realize that most of the analysts have been predicting that "big correction" for the past four months. But as long as the PTI holds to its bull trend, the stock market will (at worst) hold together, and (at best) climb to new highs.

INVESTMENT POSITION: The PTI remains in a bull trend and the bull remains in this box. Our position (aside from a safety nest egg of Treasury bills) is no-load common stock funds and the list of defense stocks.



The word is that America is going from the "great industrial society" to the "great information society." If that's true (and it may be) then technology stocks are not going to be just a fad, they're going to be "in" for the duration. One no-load (although there is a 1% redemption charge) is the excellent high-performing Fidelity Select—Technology Portfolio. This chart shows what the fund has been doing, and it's been doing basically one thing—going up. I think it's worth having some of this fund—maybe some now and some on any reaction (chart courtesy of Growth Fund Guide, Yreka, CA 96097).



Below is the latest run-down on our 13 recommended defense stocks. These are LONG-term holdings.

	Our Buy Price	Current Price	
Harris Corp. (HRS)	49 1/2	46 1/8	Defense stock average based on 1 share of each this week is 397
LFE (LFE)	117 3/8	18 1/4	
Planning Research (PLN)	143 3/8	18 7/8	
Scientific Atlantic (SFA)	19	21 7/8	
Tracor (TRR) (25% stock div.)	28 3/4	26 1/4	
Electronic Assoc. (EA)	13	14 3/8	
Varo (VRO)	19	17 3/4	
Bolt Beranek (BBN)	37	73	
BDM (BDM) (SPLIT 2 for 1)	43 1/2	96	
Dynallectron (DYN)	12 3/4	15 1/2	
Moog B (MOGB)	15 1/2	21 1/2	% Increase is: 42.8%
Systems Planning (SPZ)	7	11	
American Science (ASE)	10 1/2	10	
Original purchase price	278		

ANNOUNCEMENT: There's nothing particularly easy about writing these reports. It's a strain putting yourself on record by writing every other week. But I've been doing it since September, 1958. I used to lie awake nights wondering whether I had called the right turn or whether this stock or that stock would do what I hoped it would do. And always, what I said was there in black and white—to show me up as a winner or a fool (or even worse, an idiot).

After about ten years (during the late-1960s) I realized that I couldn't continue to take the strain I was putting myself under. There were too many sleepless nights, too many days of self incrimination, too many hand wringing sessions. I realized that I had to develop a new philosophy—or give up the business. And I did develop a new philosophy. It was this: "I promise subscribers that I'll do the best I can. I don't promise them perfection, I don't promise them that I'm a genius at work. All I promise them is my very best." To promise subscribers more (which I had been doing without realizing it) was absurd. So I stopped, and I've been sleeping pretty well ever since.

All right, here's the crux of this piece. I'm raising the price of Dow Theory Letters. My new rates will be \$130 for six months, \$225 for one year, two years for \$400.

I'm not going to apologize, I'm not going to wheedle around. I think the Letters are the best I can offer after 25 years of writing—and I believe they are worth the new price.

I will also do this for my current subscribers. I will take any multiple up to four years at the current price of \$185. These multiples can be tied on to begin when your current subscription ends.

CONTROL: I've always been what I term "control-mad." Without being fully aware of it (although I am now), I've come to realize that I've wanted to control everything in my life and the life of others around me. Now that I realize my control urge, I've decided to GIVE IT UP.

I guess the desire to control is an outgrowth of fear. Children who are fearful often feel that if they can control their parents (their world), they can make it a safe place. Of course, it doesn't work, but that doesn't keep the child from trying. And that's exactly what I did, and I continued to do it right through my teens and into my adult life.

I'm sure the desire for control led me to wrestle with the stock market. Now you have to realize that the stock market is totally outside anyone's control. *No one controls the markets.* You learn that you either go with the flow and tide of the market—or you go under. When you enter the markets you are entering a frustrating world that is totally beyond your control.

So what do you do? You must figure out (analyze) what the stock market is doing, or what it is apt to do—and then position yourself on the right side of the market. The market has the control, and you simply elect to join forces. If you want to be successful in the market, you must give up trying to control the market. Instead you have to put a lot of your energy into *controlling yourself.* That's it, give the market full control—but at the same time control your own actions.

One of the fascinations of the market is that it represents a possible road to riches. It's an area where (with patience, luck,

skill, intelligence and wisdom) you can make money. To my mind, making money in the market is harder than digging ditches, harder than running a business, harder than brain surgery—but it offers you an education (about yourself) and offers you the possibility of being an intelligent winner.

But if you think the market is a free ride, if you think the market represents the easy road to riches—forget it. The market represents the world's hardest way to make money. It's hard because until you've conquered yourself, until you've conquered your own fears and insanities and neuroses, you're probably not going to do too well.

Most of the big winners I've known on Wall Street have possessed wisdom, experience, self-knowledge, and a profound philosophy which they live by. Maybe that's why there are no child prodigies or successful teen-age traders on Wall Street. There are ten year-old violin geniuses, there are six year old math prodigies. But I've never heard of a twelve year old stock market wizard. If you know of one, let me know about it.

So I'm hoping that maybe I'll be able to give up my control madness. Because the controller always ends up being controlled. I thought today of all the energy, all the time I have put into trying to control everything around me, and everybody around me. And I'm giving up on it. I'm letting go.

A LETTER: I receive at least five to ten letters here every day of the week. I read them, each one of them, carefully. It's a funny thing, but I invariably pay most attention to a writer if he or she is over seventy. I guess I do that out of experience. I know that people who have been in the markets for three, four or five decades always have something interesting to say. And I respect them.

Here's a letter from a physician from Massachusetts. I think it's an interesting Letter and one worth publishing.

Dear Mr. Russell:

I have been a reader of your Letters off and on for some years, occasionally through my own subscription and at times through that of a relative. After Rhea died I read several other letters, Hamilton Bolton's Bank Credit stuff and E. George Schaefer's, etc. I mention these names to give you the value of my feeling that you rank with the best. At 71 I have the comfort of an actuarial assurance that your letters will be available to me as long as I am likely to need them.

What I value most is the philosophy. I believe it is pitched to the average individual investor who has survived the initial naivete with which most approach the market, led by advertisements suggesting "Ten Stocks Selling Below Cash Per Share" or "Gold Will Reach \$3000."

I cut my teeth on Magee and Edwards and on Graham and Dodd because in watching the market I realized that this is the best barometer of all world events. It is the resultant of innumerable instantaneous vectors, to use a metaphor derived from electrocardiography. No one can possibly know all the influences which move the market, but the movement is visible to anyone.

There are many cliches which constitute unappreciated wisdom. That three emotions (greed, fear and envy) motivate naive

investors is a cliché but not less wise for all that. That it is better to buy late and sell early in a bull market than to buy too soon and sell too late is a cliché of the same order. In one way or another your letters emphasize these and other attitudes.

I am particularly impressed by your orientation toward the average individual. Last night a vice-president of Morgan Stanley advised the TV audience that he expected a 15% correction and was selling. If I own Exxon at 28, sell now, pay my taxes, and try to buy at the bottom of the correction, pay two commissions and get interest from a money market fund in the interim—could I possibly hope to come out ahead? What a stupid notion! In short, what might be wisdom for First Boston or Morgan Stanley et al is not wisdom for a widow holding retirement stocks, pardon the expression.

Although I was surprised at your recommendation of a defense stock portfolio—since you make so few recommendations usually—I bought the lot plus the later three, even though it would have made the purchase less hesitant if the explanation for picking the subcontractors rather than the major had come with the initial recommendation.

Which leads me to the final bit of understanding I have gained from the market. No one is right all the time and it is better to lose profits than to lose capital.

That means that I shall stick with those stocks—they are my only current "speculation"—in spite of a correction—so long as I have a margin of profit (for the lot) to work with. I rather suspect that this will not happen; correction or no correction, despite the high P/E ratios and small dividends, these stocks will continue to do well—I think, even though many of them have sold at a third of their current price within the last year.

I hope your child, wife, cacti and personal investments are doing well, and that you continue to flourish.

Sincerely,

Dr. S.S.

NOTES & QUOTES: S. J. Levy has long been Barron's favorite economist. The following is from the latest issue of "Industry Forecasts (by Levy) out of Box 26, Chappaqua, NY 10514.

Defense industries will remain exempt from the realities that will pervade most of the economy. Military procurement outlays will rise more than 20% from 1983 to 1984. Profits will generally keep pace with sales, and margins will be among the most comfortable in the economy.

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Speaking of defense, this clip is from the June 26 LA Times. I've been telling readers that Russia is not fooling around. Russia is moving ahead RAPIDLY on a plan to dominate the world militarily. Russia is single-minded and dedicated to this plan. Ultimately (I believe) the Free World will be shocked by the fruits of the Russian plan. Russia, it should be remembered, is not building a defensive force. She is building an aggressive

military colossus, and the sooner this country recognizes that, the better.

WASHINGTON—In the 25 years since Moscow proclaimed that submarines would be the "chief arm" of the deep-water navy that it was rushing to develop, the Soviet Union has built the fastest, deepest-diving and largest undersea warships in the world, as well as some of the smallest.

U.S. analysts say that armada may soon pose new dangers for American security.

The large vessels with new missiles seem to presage a new Soviet strategy for threatening the United States with a surprise attack from beneath well-guarded Arctic ice bastions, according to naval analysts.

The midget subs, particularly the unique underwater tractors detected for the first time last fall, are believed to have been used to intrude in Scandinavian waters in what Swedish officials, as well as authoritative U.S. naval analysts, see as a crash Soviet effort to bring up to date their preparations for conventional warfare in Europe.

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Hollywood: If you trade commodities you'll enjoy the comedy hit of the summer, "Trading Places" starring Dan Aykroyd and Eddie Murphy (Paramount). One of the concepts of the movie is that any zany can turn out to be a genius at trading commodities. The movie is the brainchild and was produced by my very good buddy, Aaron Russo. Aaron is now at MGM, which in my opinion, represents a big plus for MGM/UA stock (and I'm not kidding).

* *

For two months San Diegans have been waiting breathlessly to see whether the Chargers would sign their star quarterback, Dan Fouts. On June 29 it happened. The terms are supposed to be the fattest (a million a year) in National Football League history. The contract is reputed to be an 850 page document. In contrast, San Diego's \$795 million budget is a mere 552 pages.

* *

I live about 20 miles north of the Mexican border, and what happens in Mexico is usually news here. Poverty is still a growth industry in Mexico, and on July 5 the Mexican government issued new orders which should be instructive to my subscribers. The government raised the price of tortillas (the staple food of Mexico) to 4.7 cents a pound (up 41%). The price of white bread was doubled. And the minimum wage in Mexico was raised to \$3.54 a DAY. The new price boosts came two days after the municipal elections.

The outpouring of all kinds and varieties of futures contracts continues. On the Coffee, Sugar and Cocoa Exchange they are talking about four new "economic" contracts based on the consumer price index, housing starts, new car sales and corporate earnings.

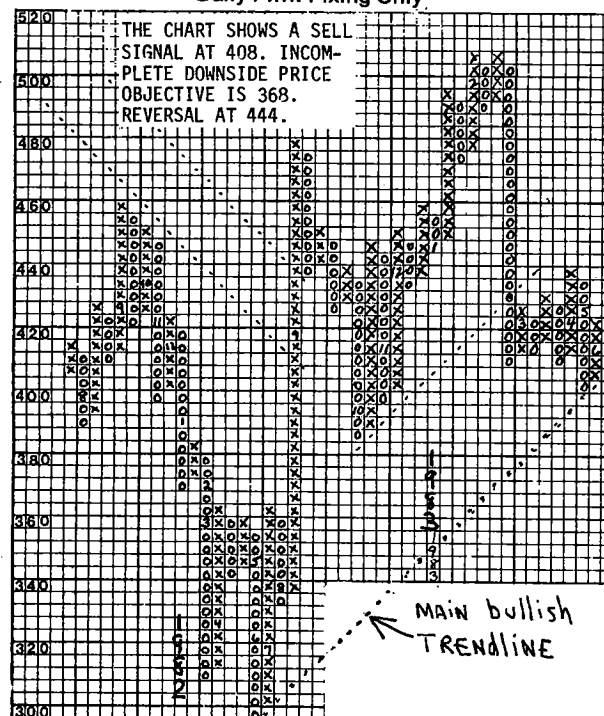
GOLD: On July 7 an unfounded rumor to the effect that Brazil would default on part of its massive debt sent gold rocketing to the 432 area. On July 8 the London fix was back to 422. As for me, I was unimpressed by the gold move based on news. And as you can see on the point & figure chart, the rumor and pop did little for the technical position for gold.

But the July 7 action brought a chorus of bullish predictions from goldphiles. And that bothered me. On LA's TV station WKHY one commentator stated that "this is the last chance to get in on the coming massive gold bull market." And I thought to myself, "The supposed gold boom is being touted as never before. Back in the late-1970s everybody doubted a big gold move. Now everybody believes in it. But where is it? Ah, there's the rub. It's as if the hard money people have hypnotized themselves. With every upward bleep they announce the start of a fabulously profitable bull market in gold and silver." And, sadly, Russell remains skeptical.

Referring again to the P & F chart, the last signal for gold was a sell signal on a breaking of the 412 level. Note that the rising (bull) trendline stemming from the 1982 bottom cuts into the current gold price at 404. Thus it is crucial for gold to hold above the 400 level. Any London fix below 400 would imply an important technical breakdown for the metal.

On the bull side, it will take a rise to the 444 level to turn gold positive again. This may happen, but I am not inclined to jump the gun. So far, I feel the gold action is neutral to bearish. And I don't like the fact that nothing was accomplished for the bulls

LONDON GOLD
Daily P.M. Fixing Only

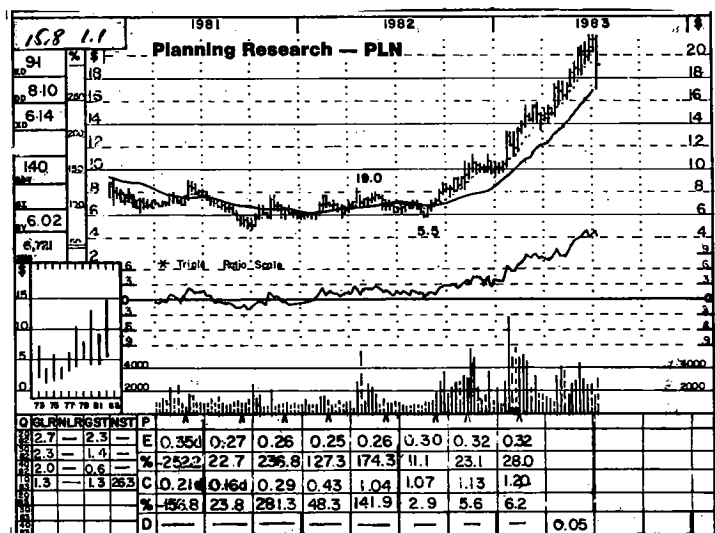


For instance, if the PTI starts caving in I'll obviously know that this is a weak market, and that we're in for a severe correction. But if the PTI holds fairly steady for a few weeks or more I'll know that the market is working off its over-bought state in a healthy and basically powerful manner.

So that's what I'll be looking at in the period ahead. So far, the verdict is that the work-off action is strong and it's impressive. That could change, but as of this writing the PTI is reluctant to give up points.

	Dow	PTI	Gold
Current	1207	1675	426
5-wk MA	1220		416
13-wk MA	1203		423
50-wk MA	1087		425
3-wk MA		1676	
8-wk MA		1652	
21-wk MA		1593	

DEFENSE STOCK ANALYSIS: Planning Research was recommended at 14-15. The stock pushed up into the low 20's and more recently (along with most of the other defense sub-contractors) it has corrected. Note that PLN has come down to its 30-week moving average (at around 17), then bounced over 18 again. This correction is healthy, and does NOT mean that the stock has topped out.



In view of the Russian/US military situation, I feel there are big things ahead for PLN. Ultimately, the US faces a “war” of high technology. And that is where PLN comes in. (Weekly chart courtesy of Mansfield, 26 Journal Square, Jersey City, NJ 07306).

Monday, July 11, 1983

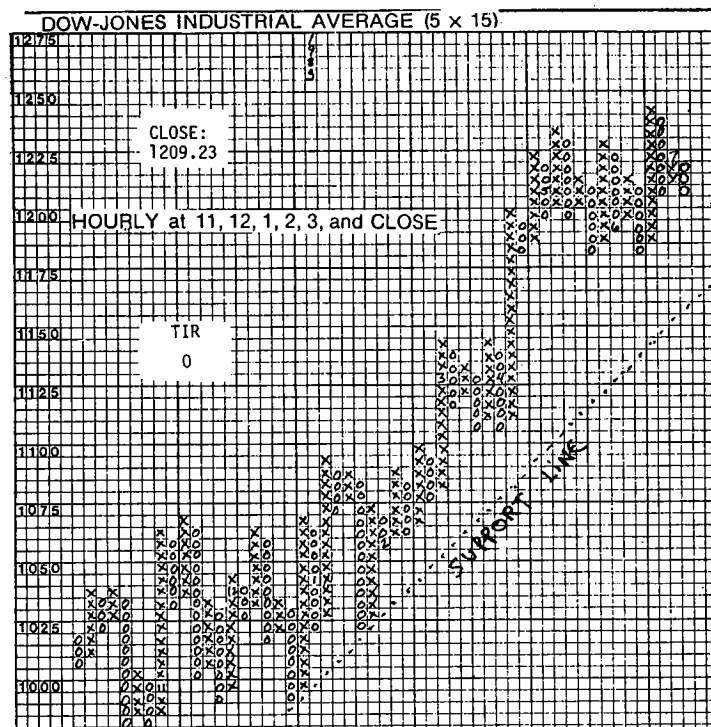
STREET JOURNAL Staff Reporter

WASHINGTON—BDM Corp. won a \$22.1 million Army contract to operate a high-energy laser system test facility.

LATE CHART: I find point & figure analysis of use in analyzing the market. The greatest use of P&F is in identifying support and resistance areas. On this chart (courtesy of Chartcraft, Larchmont, NY) an hourly Dow reading of 1205 or lower would constitute a minor "sell signal." A much more important sell signal would come on an hourly reading of 1180 or lower. Note that the main support trendline comes in at about 1160 on the Dow.

This analysis, however, is based on an examination of the D-J Industrial Average alone. Under strict Dow Theory P&F charts of the Dow alone would have no significance, since they do not include confirmation by the Transportation Average. Nevertheless, I do find a P&F view of the market of use, and from the bull's standpoint it should be hoped that the Dow can avoid an hourly reading of 1180 or lower.

A first bullish signal would come at 1230 with a major bull signal at 1250.



NEXT MAILING: July 27